

Inaccurate Reporting

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Employment Security Department
WASHINGTON STATE

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Online: www.studies.go2ui.com

Why we did this study

In 2005, the department completed a study of non-recoverable overpayments that indicated employer errors caused 48 percent of all overpayments in 2004.

This study seeks to expand the scope and look at employer errors over a three-year period to better address the pervasiveness of this issue and determine the effects on the unemployment insurance trust fund.

The complete report is available online at www.studies.go2ui.com.

For more information, contact the Office of Communication & Legislation at 360-902-9308.

What we found

Background: Businesses that have employees that work in Washington are required to report those employees' wages and the hours they work to the department each quarter. The information is used to determine whether a worker is eligible for unemployment benefits if he or she loses his or her job.

Sometimes employers do not report accurate information. When errors are discovered, the employer must file an amended report. If someone filed a claim before the information is corrected, the new information may show that the worker should not have been granted benefits or that the benefit payments should have been lower. Under state law, neither the worker nor the employer is held liable for the error and the department cannot recover the benefits it paid out; the costs are *socialized* and other employers must cover the cost.

Study: This study examines employers that filed inaccurate tax and wage reports from January 2003 through December 2005.

Findings: During the study period, employer errors caused more than \$1.17 million a year in overpayments, on average. Corporate officers accounted for more than \$151,200 of those non-recoverable overpayments in 2003. That amount decreased to about \$21,300 in 2004, and was about \$30,000 in 2005.

The two types of errors that accounted for almost 91 percent of all changes were reporting wages under the wrong Social Security number and reporting the wrong number of hours or the wrong amount of wages. These changes did not necessarily contribute to overpayments because most errors are discovered before benefits are ever paid.

Large, multi-state corporations were most likely to submit amended tax reports during the study period. When looking just at those employers that did not report hours, the study team found that the vast majority were very small employers. In 2005, almost 77 percent of all employers that did not report hours had fewer than five employees.

When an employer doesn't report hours for one or all of its workers, the department must calculate hours based on minimum wage if a worker applies for benefits. The number of claims for which the department had to calculate hours dropped from about 40,800 in 2003 to roughly 18,400 in 2005. At the same time, the number of employers that did not report hours decreased from almost 58,200 to just under 43,000.

The department dedicates the equivalent of 5.7 staff positions (FTEs) to correcting reporting errors by employers at a cost of approximately \$350,000 per year.

Table of Contents

Introduction	1
Background	1
Findings	3
<i>What is the amount of non-recoverable overpayments caused by employer error?</i>	
<i>How many claims have hours that are computed rather than reported?</i>	
<i>How many overpaid claims are caused by incorrect payments to corporate officers?</i>	
<i>Where are these employers located?</i>	
<i>What are the characteristics of employers that are filing incorrect wage and hour reports?</i>	
<i>How many of the employers are represented by third-party employer representatives?</i>	
<i>What information does the agency provide to employers on the importance of correct reporting?</i>	
<i>How many of the discrepancies are discovered through agency audits?</i>	
<i>What are the administrative costs of wage/hour adjustments due to employer errors?</i>	
Scope	5
Conclusions	6
Appendices	7
<i>Appendix A Count of Employers with Amended Reports</i>	
<i>Appendix B Reasons Wages Adjusted, Attributable to Employers</i>	
<i>Appendix C Location of Employers with Errors that Caused Non-recoverable Overpayments</i>	
<i>Appendix D Characteristics of Employers with Amended Reports</i>	
<i>Appendix E Characteristics of Employers with Amended 2003-2005 Reports Represented by Third Parties</i>	

Introduction

Businesses that have employees that work in Washington State are required to report those employees' wages and the hours they work to the Employment Security Department each quarter. The information is used to determine whether a worker is eligible for unemployment benefits if he/she loses his/her job.

Employers do not always report accurate information. When errors are discovered, the employer must file an amended report. This can lead to a non-recoverable overpayment if the worker has already received benefits. Sometimes, employers report wages, but do not report the hours their employees worked. The department then calculates hours based on minimum wage if a worker applies for benefits.

The goal of this study is to evaluate how employers who do not accurately report wages and/or hours affect the unemployment trust fund and increase the costs of administering the unemployment-insurance program.

Background

Employers are required to report the number of hours their employees work and their wages to the department each quarter. They can file electronically or on paper forms. These reports are used to determine whether a person is eligible for unemployment benefits and to calculate the amount the person receives each week. Employers sometimes make mistakes on their reports, which can lead to incorrect decisions and payments. Common errors include:

- Listing invalid Social Security numbers;
- Not listing Social Security numbers;
- Submitting inaccurate wage amounts; and
- Not reporting hours.

When these errors are discovered, the employer must file an amended report. If someone filed a claim before the information was corrected, the new information may show that the worker should not have been granted benefits or that his benefit payments should have been a different amount. Under state law, neither the worker nor the employer is held liable for the error and the department cannot recover the benefits it paid out¹; the costs are *socialized* and other employers must cover the cost.

The department has undertaken many efforts to reduce errors in the unemployment system, including:

- When someone applies for benefits, the department sends the employer a notice to verify the information on which the claim is based. If the employer does not respond in a timely manner, it can lead to an overpayment.
- *UIFastTax* and *UIWebTax*² highlight missing information and common mistakes.
- Penalties were introduced in July 2004 and fully implemented in July 2005³.

¹ RCW 50.20.160

² Electronic filing tools available online at www.go2ui.com.

Data notes

This study examines employers that filed inaccurate tax and wage reports from January 2003 through December 2005. It does not include COPES accounts⁴ or some state agencies because wage records from these two sources are processed in a different manner.

Purpose of this study

In 2005, the department completed a study of non-recoverable overpayments, a large portion of which appeared to be caused by employer error. This study seeks to expand the scope and look at a three-year period to better address the pervasiveness of this issue and determine the effects on the unemployment trust fund. It answers the questions:

- What is the amount of non-recoverable overpayments caused by employer error?
- How many claims have hours that are computed rather than reported?
- How many overpaid claims are caused by incorrect payments to corporate officers?
- Where are these employers located? (e.g., urban or rural, Eastern or Western WA)
- What are the characteristics of employers that are filing incorrect wage and hour reports?
- How many of the employers are represented by third-party employer representatives?
- What information does the agency provide to employers on the importance of correct reporting?
- How many of the discrepancies are discovered through agency audits?
- What are the administrative costs of wage/hour adjustments due to employer errors?

Findings

From 2003 through 2005, almost 200,000 employers⁵ filed approximately 11.6 million individual wage records with the department each year. Just over 11 percent of these employers (about 22,000 on average, each year) made a mistake on their report and had to file an amended report⁶.

Not all wage records are used for unemployment claims because not all workers apply for benefits. Approximately 10 percent of reported wages were used to determine whether someone was eligible for unemployment benefits and how much those benefits should be. In 2005, approximately 3.8 percent of all benefit claims had to be adjusted based on amended tax reports.

³ Penalties apply to incomplete or incorrect reports filed on paper forms or electronically. If an employer owes taxes, the penalty is 10 percent of the tax due, with a minimum of \$75 and a maximum of \$250. If the employer does not owe taxes, the penalty is \$75 the first time; \$150 the second time; \$250 the third time and each time thereafter.

⁴ Community Options Program Entry System (COPES): A program intended to provide caregiver assistance to people who might otherwise be at risk of nursing home placement, which is funded through the Washington State Department of Social and Health Services (DSHS). The individuals receiving care are considered the "employer" of the caregiver.

⁵ Includes COPES accounts and state agencies.

⁶ See Appendix A.

What is the amount of non-recoverable overpayments caused by employer error?

When an employer reports inaccurate information, it can result in an overpayment if a worker has already received benefits based on the inaccurate information. These overpayments are considered *non-recoverable* because, according to state law, neither the worker nor the employer is held liable for the error⁷. Instead the costs are *socialized*, which means other employers must cover the costs. From 2003 through 2005, employer errors caused more than \$1.17 million a year in overpayments, on average – between 33 and 45 percent of all non-recoverable overpayments each year⁸.

Non-recoverable overpayments caused by employer errors		
Year	Amount	% all non-recoverable overpayments
2003	\$1,374,543	33.0
2004	\$1,215,925	44.7
2005	\$934,218	43.7
Total	\$3,524,686	

Figure 1

How many claims have hours that are computed rather than reported?

Employers sometimes fail to enter the hours their employees worked on their quarterly reports. When this happens, the department generally enters the wage information into its database and leaves the hours blank. Then, when someone applies for benefits, the department calculates hours based on minimum wage to determine whether the worker is eligible⁹.

The number of unemployment claims for which the department had to calculate hours because one or more base year employer¹⁰ did not report hours dropped from just over 10 percent of all claims (about 40,800) in 2003 to just over 6 percent (roughly 18,400) in 2005.

Unemployment claims with missing hours			
Year	Total claims	Claims w/ missing hours	% all claims
2003	401,709	40,836	10.2
2004	332,283	27,194	8.2
2005	293,118	18,428	6.2

Figure 2

At the same time, the number of employers that did not report hours decreased from almost 30 percent of all employers (about 58,200) to about 20 percent (roughly 43,000).

Employers that did not report hours		
Year	# employers	# records
2003	58,162	482,981
2004	50,508	418,021
2005	42,292	225,979

Figure 3

How many overpaid claims are caused by incorrect payments to corporate officers?

In Washington, corporations can elect unemployment coverage for their corporate officers. If they do not, those officers should not be reported as employees and should not be eligible

⁷ RCW 50.20.160

⁸ Administrative issues, such as system errors and data-entry errors, account for other non-recoverable overpayments.

⁹ WAC 192-310-035

¹⁰ *Base year employer*: The employer(s) that a person worked for during the base year of the claim. The base year is usually the first four of the last five completed calendar quarters before the benefit year of the claim. For example, most claims filed in February of 2004 use October 2002 through September 2003 as the base year. Hours and wages in the incomplete, then-current quarter (January-March 2004) and the most recent completed quarter (October-December 2003) were not used in benefit determinations on most claims filed between January and March 2004. RCW 50.04.020

for unemployment benefits if they lose their jobs – but they sometimes are because the department does not know that they are corporate officers¹¹.

If a corporate officer files for unemployment before the information is corrected, the corporate officer may receive benefits. Once the correction is made, the claim is invalidated and the amount of benefits paid to the officer is non-recoverable.

The amount of non-recoverable overpayments paid to corporate offices declined from more than \$151,200 in 2003 to about \$21,300 in 2004, then inched up to just over \$30,000 in 2005.

Non-recoverable overpayments to corporate officers, 2002-2005		
Year	Amount	Claims
2003	\$151,208	25
2004	\$21,346	17
2005	\$30,043	11
Total	\$468,192	53

Figure 4

Where are these employers located?

Employers that filed incorrect reports that led to non-recoverable overpayments were located across the state in the same general distribution as all employers. Just over 72 percent of were located in Western Washington – with half of all employers concentrated in King, Pierce or Snohomish counties. About 28 percent were in Eastern Washington¹².

Area	Total	%
East	3,022	27.8
West	7,855	72.2
Total	10,877	

Figure 5

What are the characteristics of employers that are filing incorrect reports¹³?

Two types of errors accounted for almost 91 percent of all amended tax and wage reports¹⁴:

- Employers report wages under the wrong Social Security number.
- Employers report the wrong number of hours or the wrong amount of wages.

It is important to note that not all of these errors resulted in overpayments. Many errors are discovered when a worker files a claim and before benefits are paid. Others are never used for an unemployment claim because a relatively small percentage of all workers apply for benefits. Also, the potential for overpayments has been reduced through implementation of fraud-prevention tools. For example, the department verifies all claimants' Social Security numbers when they apply for benefits, so most errors are discovered before any payments are made.

Corporations filed about two-thirds of all amended tax and wage reports in 2003 through 2005, but make up less than half of all employers in the state. Limited-liability companies also were disproportionately represented at 11 percent versus 0.1 percent of all employers. It also is important to note that both corporations and limited-liability companies filed an increasing number of amendments from year to year, while sole proprietors saw a decline in errors.

When looking just at those employers that did not report hours, the study team found that the vast majority were very small employers. In 2005, almost 77 percent of all employers that did not report hours had fewer than five employees.

¹¹ See the *Corporate Officer* study for more information. Available online at www.studies.go2ui.com.

¹² See Appendix C for county breakouts.

¹³ See Appendix D.

¹⁴ See Appendix B.

The study team also looked specifically at employers that had errors that led to non-recoverable overpayments. These employers were located across the state in the same general distribution as all employers: half were located in King, Pierce or Snohomish counties. About 28 percent were located in Eastern Washington.

The study team also examined the size and industry of employers that caused non-recoverable overpayments, including overpayments to corporate officers, and found no significant trends.

How many of the employers are represented by third-party employer representatives¹⁵?

The department is not always notified when a business is represented by a third party. Therefore, the study team looked only at employers that were represented by one of the five most commonly used employer representatives, which included roughly 13,900 employers that had filed amended reports. Of those:

- Corporations filed the greatest share of amended reports – 82.3 percent.
- Service-industry employers filed the greatest percentage of amended reports – 33.3 percent.
- Employers in wholesale and retail trade were a close second at 32.9 percent.

What information does the agency provide to employers on the importance of correct reporting?

The department has undertaken numerous efforts to educate employers on the importance of reporting correctly:

- The agency Web site¹⁶ includes information and updates.
- The department sends warning letters to employers that file incorrect reports on paper forms.
- Staff call employers who make mistakes.
- The department regularly runs articles in its quarterly newsletter that is sent to all employers with their quarterly tax packages¹⁷.
- UIFastTax and UIWebTax highlight missing information and check for common mistakes.
- The tax handbook also contains information. It is available online¹⁸ and in hard copy in district tax offices and WorkSource centers across the state.

How many of the discrepancies are discovered through agency audits?

The study team could not answer this question because the department's data does not capture whether an adjustment was made due to an audit.

¹⁵ See Appendix E.

¹⁶ www.wa.gov/esd

¹⁷ The Business Update newsletter is sent in hard copy to all employers that file paper forms. A link to the online version of the newsletter is sent to all employers that file electronically. www.bizupdate.go2ui.com

¹⁸ www.taxbook.go2ui.com

What are the administrative costs of wage/hour adjustments due to employer errors?

The department dedicates the equivalent of 5.7 staff positions (FTEs) to correcting reporting errors by employers at a cost of approximately \$350,000 per year.

Scope

The information in this document addresses questions that arose from a previous study on non-recoverable overpayments conducted in 2005. It explores wage adjustments and the extent of non-recoverable overpayments that result from inaccurate reporting of wages and hours.

Time period to be studied

January 2003 through December 2005

Data sources

Employment Security's Data Warehouse

Current laws and policies

Employer tax reports from Document Entry Storage Retrieval (DESR) system and TAXIS

Assumptions

Only data in the unemployment-insurance tax system that indicates employer error was used in this study. The study team operated on the assumption that staff that enter codes into the data system do so in the same manner and with the same definition.

Conclusions

Non-recoverable overpayments have a negative effect on the unemployment trust fund because benefits are paid in an amount in excess of what would have been paid if wages and hours had been reported correctly. If a claim is re-determined as invalid or if the amount is recalculated at a lower level, any benefits paid on the claim are a draw on the trust fund.

When employers submit incorrect reports to the department, it results in non-recoverable overpayments - \$3.5 million from 2003 through 2005. Under state law, neither workers nor employers are held accountable for overpayments caused by reporting errors.

The two most common errors employers make are reporting wages under the wrong Social Security number and misreporting hours or wages. It is important to note that amended reports lead to overpayments only if they are not corrected before someone files a claim and benefits are paid out.

Accurate reporting has significantly improved in the last year, resulting in a 23 percent decrease in non-recoverable overpayments from 2004 to 2005. Preliminary analysis of data for 2006 indicates the downward trend continues. This may be a result of increased usage of UIFastTax and UIWebTax, implementation of penalties and outreach to employers regarding the importance of accurate reporting.

Inaccurate reporting costs the department over \$350,000 (5.7 FTEs) each year.

Count of Employers with Amended Reports

Year	# unique employers who filed quarterly report	# unique employers with amended reports	% filing amended reports
2003	193,775	23,376	12.1
2004	189,601	22,572	11.9
2005	189,672	16,681	8.8
Total	573,048	62,629	

Note: Includes all amended reports and is not limited to those that caused non-recoverable overpayments.

Reasons Wages Adjusted, Attributable to Employers

Reason	2003	2004	2005	Average
Wages reported under wrong SSN	20,652	7,507	6,498	11,552
Earnings or hours reported incorrectly	14,206	5,071	4,598	7,958
Other	3,806	1,312	896	2,008
Total	38,664	13,890	11,992	21,518
% that reported under wrong SSN or incorrectly reported wages and hours	90.2	90.6	92.5	90.7
% that reported under wrong SSN	53.4	54.0	54.2	53.7
% that incorrectly reported wages and hours	36.7	36.5	38.3	37.0

Note: Includes all changes to wage records and is not limited to non-recoverable overpayments.

Location of Employers with Errors that Caused Non-recoverable Overpayments, 2003-2005

County	Employers	%
KING	3,662	33.7
PIERCE	1,012	9.3
SNOHOMISH	890	8.2
SPOKANE	745	6.8
YAKIMA	625	5.7
CLARK	463	4.3
BENTON	349	3.2
THURSTON	336	3.1
KITSAP	324	3.0
WHATCOM	280	2.6
CHELAN	255	2.3
SKAGIT	209	1.9
GRANT	201	1.8
FRANKLIN	144	1.3
COWLITZ	123	1.1
OKANOGAN	122	1.1
LEWIS	116	1.1
DOUGLAS	116	1.1
GRAYS HARBOR	115	1.1
CLALLAM	111	1.0
WALLA WALLA	92	0.8
KITTITAS	78	0.7
ISLAND	70	0.6
MASON	59	0.5
ADAMS	49	0.5
STEVENS	48	0.4
WHITMAN	46	0.4
JEFFERSON	43	0.4
ASOTIN	35	0.3
KLICKITAT	27	0.2
LINCOLN	24	0.2
FERRY	21	0.2
PACIFIC	19	0.2
SAN JUAN	15	0.1
COLUMBIA	14	0.1
PEND OREILLE	12	0.1
GARFIELD	11	0.1
SKAMANIA	8	0.1
WAHKIAKUM	8	0.1
TOTAL	10,877	

Characteristics of Employers with Amended Reports

Amended Reports by Business Structure

Business structure	2003	2004	2005	% amended reports in 2005	% all employers that reported in 2005
Corporation	7,044	8,068	6,393	64.2	47.5
Limited liability company (LLC)	712	1,049	1,123	11.3	0.1
Limited liability partnership (LLP)	10	18	11	0.1	8.8
Partnership	213	256	219	2.2	2.0
Sole proprietor	1,884	2,122	1,829	18.4	38.5
Other	463	498	387	3.9	3.1
Total	10,326	12,011	9,962		

Amended Reports by Small/Large Employers

Year	# reports filed by large employers	# reports amended by large employers	%amended by large employers	# reports filed by small employers	# reports amended by small employers	% amended by small employers
2003	6,348	1,314	20.7	133,937	9,012	6.7
2004	6,609	1,349	20.4	155,538	10,662	6.9
2005	6,726	1,162	17.3	173,291	8,800	5.1

Note: Matrix does not represent volume of wage records affected, only the characteristic of the employers involved. Large employers are those with more than 50 workers; small are those with 50 or fewer employees.

Size of employer that reported wages, but did not report hours in 2005

# employees	# employers	% employers that did not report hours	% all employers that reported in 2005
0-1	31,703	75.0	46.5
2-4	5,023	11.9	24.7
5-10	1,708	4.0	14.1
11-50	2,182	5.2	11.3
Over 50	1,676	4.0	3.4
Total	42,292		

Characteristics of Employers with Amended 2003-2005 Reports Represented by Third Parties (13,932 total)

Business structure	# employers	%
Corporation	11,460	82.3
Limited liability company (LLC)	921	6.6
Limited liability partnership (LLP)	16	0.1
Sole proprietor	309	2.2
Other	598	4.3
Corporation	628	4.5

Industry	Accounts	%
Ag, Fishing	63	0.5
Mining	668	4.8
Manufacturing	971	7.0
Wholesale/Retail Trade (breakout in table below)	4,588	32.9
Services (breakout in table below)	4,633	33.3
Services-Education/Health	1,326	9.5
Services-Entertainment/Accommodations/Food	860	6.2
Services-Repair/Personal	801	5.7
Public Admin	22	0.2

Industry	Accounts	%
Wholesale	3,054	21.9
Retail	1,064	7.6
Services-Finance, Insurance	926	6.6
Services-Prof/Scientific/Technical	1,909	13.7
Services-Admin/Support/Waste	715	5.1